

## Message Text

PAGE 01 SEOUL 00490 240646Z

13

ACTION EB-07

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

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CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 /077 W

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R 240043Z JAN 75

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 8043

INFO AMEMBASSY TOKYO

AMEMBASSY TAIPEI

AMCONSUL HONG KONG

UNCLAS SEOUL 0490

HONG KONG FOR REGFINATT

E.O.11652: N/A

TAGS: EGEN, KS

SUBJECT: ROKG ECONOMIC FORECAST FOR 1975 (OVERALL RESOURCES  
BUDGET)

REF: CERP

SUMMARY: WITH KEY ASSUMPTION OF RESURGENCE OF RAPID EXPORT  
GROWTH, OFFICIAL ROKG ECONOMIC FORCAST FOR 1975 PROJECTS 7  
PERCENT GROWTH IN REAL GNP AND MODERATE IMPROVEMENT OVER HUGE  
1974 BALANCE OF PAYMENTS DEFICIT. HOWEVER, SHIFT FROM SHORT  
TO LONG-TERM BORROWING WILL RESULT IN INCREASED LONG-TERM  
CAPITAL NEEDS IN 1975. IN PUBLICLY ANNOUNCING FORECAST, DEPUTY  
PRIME MINISTER MAN, DUCK WOO EXPRESSED RESERVATIONS THAT  
CRUCIAL EXPORT TARGET OF DOLS 6.0 BILLION CAN BE MET. END SUMMARY.

1. ROKG DEPUTY PRIME MINISTER NAM, DUCK WOO PRESIDED OVER  
PRESS CONFERENCE YESTERDAY WHICH FEATURED RELEASE OF OVERALL  
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PAGE 02 SEOUL 00490 240646Z

RESOURCES BUDGET (ORB) CONTAINING OFFICIAL ROKG ECONOMIC FORE-  
CAST FOR 1975. HIGHLIGHTS OF ORB ARE SUMMARIZED BELOW.

2. BASIC POLICY OBJECTIVES ARE TO TIDE OVER RECESSION, REDRESS

SLACK EXPORT GROWTH, REORGANIZE INTERNAL PRICE STRUCTURE (JMKMORE RELIANCE ON MARKET FORCES BUT WITH EFFORTS TO PROTECT PURCHASING POWER OF LOW INCOME POPULATION), AND STABILIZE PRICES THROUGH INCREASED PRODUCTION AND EMPLOYMENT. FOR LONG-TERM GROWTH, ORB ALSO CALLS FOR INCREASED DOMESTIC SAVINGS, MORE FOOD PRODUCTION, AND CONSTRUCTION OF HEAVY AND CHEMICAL INDUSTRIES.

3. SEVEN PERCENT REAL GNP GROWTH IS PROJECTED FOR 1975, COMPARED TO 8.2 PERCENT INCREASE IN 1974 AND 16.5 PERCENT IN 1973. INDUSTRIAL PRODUCTION ASSUMED TO CONTINUE TO GROW AT 13.0 PERCENT; AS IN 1974. FIXED INVESTMENT IS TO GROW AT 5.7 PERCENT AND CONSUMPTION BY 5.8 PERCENT. RATIO OF

DOMESTIC SAVING TO GNP FORESEEN AS 17.1 IN 1975, COMPARED TO 18.8 IN 1974. GNP EXPECTED TO INCREASE BY 26.4 PERCENT IN CURRENT PRICES, AND GNP PER CAPITA IN DOLLARS TO RISE BY 6.4 PERCENT TO DOLS 546 (AT ASSUMED 480:1 WON-DOLLAR EXCHANGE RATE) COMPARED TO DOLS 513 IN 1974.

4. IN KEY ASSUMPTION UNDERLYING ENTIRE STRUCTURE OF 1975 FORECAST, ORB PROJECTS RESURGENCE OF RAPID EXPORT GROWTH, SETTING TARGET OF DOLS 6.0 BILLION. WHILE LOOKING FOR INCREASE OF 30 PERCENT IN VALUE TERMS AND 22 PERCENT IN REAL TERMS FOR EXPORTS, VALUE OF IMPORTS IS EXPECTED TO RISE BY ONLY 14 PERCENT, REPRESENTING REAL GROWTH OF JUST 6 PERCENT. THESE TRADE ASSUMPTIONS REDUCE PROJECTED 1975 TRADE DEFICIT TO DOLS 1.2 BILLION AS COMPARED TO ORB ESTIMATE OF DOLS 1.7 BILLION GAP FOR 1974; 500 & -8, TO BE PARTIALLY OFFSET BY CLIMB OF 32 PERCENT TO DOLS 463 MILLION FOR SERVICES DEFICIT. HOWEVER, WITH MODEST INCREASE TO DOLS 285 MILLION IN TRANSFERS SURPLUS, CURRENT ACCOUNT DEFICIT IS FORECAST AS IMPROVING TO DOLS 1.4 BILLION, OR DOLS 400 MILLION SMALLER THAN ORB ESTIMATE OF DOLS

1.8 BILLION FOR PAST YEAR.  
UNCLASSIFIED

PAGE 03 SEOUL 00490 240646Z

, A SHIFT FROM SHORT TO LONG-TERM FINANCING OF THE BOP DEFICIT IS PROJECTED TO INCREASE NET LONG-TERM CAPITAL FROM DOLS 965 MILLION IN 1974 TO DOLS 1,146 MILLION IN 1975, INCLUDING A DOLS 200 MILLION INCREASE (TO DOLS 520 MILLION) IN PUBLIC LOAN

ARRIVALS. NET SHORT-TERM AND OTHER CAPITAL INFLOWS (INCLUDING INCREASE OF ALL IMF CREDITS) ARE EXPECTED TO FALL FROM DOLS 903 TO DOLS 381 MILLION IN 1975. DESPITE AN ANTICIPATED DECLINE OF ALMOST DOLS 350 MILLION IN TOTAL NET CAPITAL INFLOWS, GROSS FX RESERVES ARE STILL EXPECTED TO SHOW MODEST INCREASE OF DOLS 150 MILLION

TO DOLS 1.2 BILLION. LATTER FIGURE PROVIDES COVERAGE FOR JUST UNDER 1.7 MONTH'S PROJECTED IMPORTS OF GOODS AND SERVICES,

VIRTUALLY UNCHAITAL INFLOWS, GROSS FX RESERVES  
ARE STILL EXPECTED TO SHOW MODEST INCREASE OF DOLS 150 MILLION

TO DOLS 1.2 BILLION. LATTER FIGURE PROVIDES COVERAGE FOR JUST  
UNDER 1.7 MONTH'S PROJECTED IMPORTS OF GOODS AND SERVICES,  
VIRTUALLY UNCHANGED FROM  
COVERAGE PROVIDED BY 1974 END-YEAR  
GROSS RESERVE TOTAL OF DOLS 1.05 BILLION (USING ORB ESTIMATES  
FOR 1974 GOODS AND  
SERVICES IMPORTS).

6. MONEY SUPPLY IS FORECAST TO INCREASE BY 36.2 PERCENT, OR  
MORE RAPIDLY  
THAN GNP IN CURRENT PRICES (28.4 PERCENT). THIS  
CONTRASTS WITH 1974 WHEN MONEY SUPPLY GREW MORE SLOWLY THAN GNP

(31.1 PERCENT COMPARED TO GNP INCREASE OF 40.9 PERCENT  
IN CURRENT PRICES). TOTAL DOMESTIC CREDIT IS TARGETED TO  
INCREASE BY ONLY 30.8 PERCENT IN 1975, COMPARED TO UNEXPECTEDLY  
LARGE INCREASE OF 52.5 PERCENT IN 1974. PROJECTED GNP DEFLATOR V  
OF 20 PERCENT FOR 1975 COMPARES WITH 30.2 PERCENT FOR 1974.

7. COMMENTS: ENTIRE FORECAST RESTS HEAVILY ON ASSUMPTION OF  
STRONG EXPORT GROWTH IN 1975. THIS WOULD REPRESENT SHARP  
REVERSAL OF CURRENT TREND WHICH SHOWS EXPORTS FALLING IN BOTH  
NOMINAL AND REAL TERMS SINCE MID-YEAR. SUCH LEADING INDICATORS  
AS EXPORT LETTER-OF-CREDIT ARRIVALS OFFER LITTLE ENCOURAGEMENT  
(PRELIMINARY TOTAL FOR FOURTH QUARTER L/C ARRIVALS IS DOWN DOLS  
132 MILLION FROM FOURTH QUARTER OF 1973). PRESS ACCOUNTS OF  
YESTERDAY'S NEWS CONFERENCE REPORT IN FACT THAT NAM INDICATED  
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PAGE 04 SEOUL 00490 240646Z

HE WAS PESSIMISTIC ABOUT POSSIBILITIES FOR REACHING XPOR GOAL,  
GIVEN RLOOMY OUTLOOK FOR WORLD ECONOMY. HOWEVER, OPTIMISTIC  
PLANNING TARGETS ARE IN KOREAN TRADITION AND HAVE GENERALLY DEEN  
OVER-ACHIEVED IN PAST.  
TARGETS FOR 1975 WERE REPORTEDLY ADOPTED

IN PREFERENCE TO MORE PESSIMISTIC GROWTH PROJECTIONS WHICH  
FORECAST SIGNIFICANT INCREASES IN UNEMPLOYMENT.

8. LESS FAVORABLE BOP PERFORMANCE THAN FORECAST IN ORB IN 1975  
WOULD ADD TO KOREA'S LONG-TERM CAPITAL FINANCING PROBLEMS, SINCE  
LARGE AMOUNT  
OF NET SHORT-TERM BORROWING INCURRED IN 1974  
PRESUMABLY CANNOT BE REPEATED. INDICATIONS ARE THAT FINAL 1974  
BOP DATA WILL SHOW CURRENT ACCOUNT DEFICIT OF ABOUT DOLS 2.0  
BILLION, OR ROUGHLY DOLS 200 MILLION HIGHER THAN IN ORB. SINCE  
CURRENT INDICATORS FOR BOTH IMPORTS AND EXPORTS FORECAST A  
WORSENING OF BOP DEFICIT IN THE FIRSTHALF OF 1975, SOME  
IMPROVEMENT IN THE SECOND HALF WILL BE NEEDED JUST TO PREVENT  
1975 BOP DEFUCIT FROM EXCEEDING RECORD 1974 LEVEL.

9. FURTHER ANALYSIS AND COMMENTS WILL FOLLOW.

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